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C O N F I D E N T I A L SECTION 01 OF 02 SHENYANG 000171

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TAGS: [CH](#) [EAIR](#) [ECON](#) [EIND](#) [ETRD](#) [PGOV](#) [PREL](#)
SUBJECT: SHENYANG'S AVIATION ECONOMIC ZONE BRING'S MAJOR
CHANGE TO CHINA'S COMMERCIAL AIRCRAFT INDUSTRY

REF: A. SHENYANG 00048
[1](#)B. SHENYANG 00050

Classified By: CONSUL GENERAL STEPHEN
[1](#)B. WICKMAN REASONS 1.4(B) and (D)

[1](#)1. (C) Summary: City officials and business representatives confirmed that Shenyang will establish an aviation economic zone in the area south of the Hunnan Development Zone and north of Taoxian International Airport and that Shenyang Aircraft Corporation (SAC) will establish a new company made up of commercial components of various operations throughout China. The new zone continues the rapid industrialization of Shenyang's south side and will have ready access to a planned high-tech metals facility, large numbers of technology and avionics manufacturers, and expanded testing and maintenance facilities. Meanwhile, a General Electric (GE) partner plans to develop more expertise building a GE engine for a regional jet. End Summary.

[1](#)2. (C) Shenyang City officials participating in the Aviation and Aerospace Complete Spare Parts Expo confirmed that Shenyang will establish an aviation economic zone in the area south of the Hunnan Development Zone and north of Taoxian International Airport (see reftels). Boeing and General Electric representatives also confirmed that each company will establish a presence in the zone. At a September 4 dinner host by the Consul General, Shenyang Aircraft Corporation's (SAC) Pang Zhen told the CG that AVIC I was establishing a new commercial aircraft manufacturing company made up of commercial components of various AVIC operations throughout China. Mr. Pang will serve as President of the new company.

[1](#)3. (C) According to Chen Hongfeng, SAC's Director General for Commercial Aircraft Management, the new zone is designed to separate China's commercial aircraft industry from its military aircraft industry. This will ease crowding at facilities like SAC's existing plant, which houses both military and civilian manufacture. Boeing staff at SAC's existing facility had previously told Econoff of increasing military demand for space at the current facility. Chen went on to say that the move would make it easier for foreign partners to conduct business with SAC and that the new location would simplify logistics.

[1](#)4. (C) GE's Bi Lequn told Econoff that General Electric, which operates three joint ventures in Shenyang together with Liming Turbines, was planning to set up a fourth joint venture. While the three existing plants are in Hunnan Development Zone, the fourth will be located in the planned Aviation Economic Zone. One noteworthy development is that, according to Mr. Bi, the new joint venture will involve some

actual production by Liming. In the three other joint ventures here (gas turbines, wind turbines, and turbine parts), Liming is a passive investor and is not involved in production at all.

¶15. (C) Liming is the lead engine manufacturer for China's fighter aircraft. Plans call for the new joint venture to manufacture GE's CF34-10A aircraft engine, which AVIC 1 Commercial Aircraft of China (ACAC) agreed in November 2004 to use to power its ARJ21 Regional Jet. The new company will supply engines for these aircraft. Also according to Mr. Bi, Liming will initially manufacture about one percent of the final product. Once successful in this process, Liming's overall share of production will gradually expand to five percent. The CF-34-10A is a derivative of the TF-34 engine used by the U.S. Air Force's A-10 and the U.S. Navy's S-3A. In addition to the ARJ21, the CF-34-10A is used on various Bombardier and Embraer models.

¶16. (C) Boeing's manager of operations at SAC said that Boeing would eventually be moving to the new zone, along with all of SAC's commercial operations. He said that competition for resources between the military side, which produces J8 and J11 fighters as well as a variety of munitions and spare parts, and the commercial side, which manufactures a wide variety of parts for Boeing's 737 and is the sole supplier for vertical-fin leading-edge and tip-cap assemblies for the 787, has reached a critical point. He went on to say that the new facility would help to resolve production delays on the commercial side caused by military consumption of resources at the existing plant. He had previously told Econoff of major increases in military production and confirmed recently that military production remains at near

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capacity.

¶17. (U) The new Aviation Economic Zone continues the rapid industrialization of Shenyang's south side. Located just south of the Hunnan Development Zone, the aviation area will have ready access to Foxconn's planned high tech metals facility (Reftel B) and large numbers of technology and avionics manufacturers. Planned expansion at Taoxian Airport will accommodate testing and maintenance facilities. The new zone should have a synergistic effect with Hunnan's "high tech heavy industry" plan.
WICKMAN